

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

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R 111722Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7146

INFO AMEMBASSY CAIRO

AMEMBASSY KINSHASA

AMEMBASSY LUSAKA

C O N F I D E N T I A L SECTION 01 OF 02 BONN 04115

EXDIS

E.O. 11652: GDS

TAGS: EAID, GW, EG, CG, ZA

SUBJ: CHANCELLOR ON AID TO EGYPT, ZAIRE, AND

ZAMBIA AND THE LIMITS ON WHAT THE FRG CAN DO.

1. DURING UNDER SECRETARY ROBINSON'S DISCUSSIONS  
WITH CHANCELLOR SCHMIDT ON MARCH 10, THE CHANCELLOR  
LISTENED UNDERSTANDINGLY TO MR. ROBINSON'S  
PRESENTATION OF THE EGYPTIAN SITUATION.

2. HOWEVER, BEFORE ENTERING INTO THE MERITS OF THE  
EGYPTIAN CASE, THE CHANCELLOR WENT THROUGH A LONG  
LITANY OF DEMANDS ON GERMAN RESOURCES WHICH MADE IT  
DIFFICULT FOR FURTHER CONTRIBUTIONS FROM GERMAN  
RESOURCES. THE CHANCELLOR INSISTED THAT ANY CON-  
TRIBUTIONS TO EGYPT WOULD HAVE TO BE THROUGH THE  
FEDERAL BUDGET. HE REFERRED TO BUNDES BANK CREDITS  
TO ITALY AND PORTUGAL (IN THE LATTER CASE FOR SOME  
REASON HE THOUGHT THE MONEY WOULD NEVER BE REPAYED).  
HE COMPLAINED THAT THE GERMANS HAD TO PAY FOR THE  
BRITISH REFERENDUM TO REMAIN IN THE EC. HE EXPLAINED  
THAT INFLATION HAD BEEN KEPT DOWN IN GERMANY ONLY  
BY BUDGET STRINGENCY, AND IT WAS DIFFICULT TO  
JUSTIFY POLITICALLY WHY THE FRG SHOULD BE SPENDING  
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BUDGET FUNDS ABROAD WHILE SQUEEZING DOMESTIC PROGRAMS,

ESPECIALLY DURING ELECTION YEAR. HE SAID HE WAS ALSO UNDER PRESSURE TO PAY FOR AMERICAN MILITARY INSTALLATIONS IN GERMANY, SOMETHING WHICH HE WOULD NOT BE WILLING TO DO SINCE IT WOULD ONLY ENCOURAGE BRITISH DEMANDS FOR EQUAL TREATMENT. HE SAID IT WOULD BE POSSIBLE FOR THE BUNDES BANK TO TRANSFER SOME OF ITS MASSIVE, UNNEEDED FOREIGN EXCHANGE RESERVES, BUT SINCE THE CENTRAL BANK WOULD NOT GET ITS MONEY BACK, THE FEDERAL GOVERNMENT WOULD HAVE TO MAKE UP FOR THE LOSS TO THE CENTRAL BANK.

3. AFTER THIS NOT SURPRISINGLY GLOOMY PICTURE, THE CHANCELLOR SAID HE WOULD LOOK INTO THE MATTER OF FURTHER ASSISTANCE FOR EGYPT. HE EMPHASIZED THE FRG HAD ALWAYS TRIED TO BE HELPFUL. HE POINTED OUT, HOWEVER, THAT THE GERMANS HAD GIVEN DM 750 MILLION IN PROJECT AID, AND THAT CREDITS OF DM 850 MILLION HAD BEEN GIVEN SINCE 1972 WITH EXCEEDINGLY LIBERAL TERMS REQUIRING A FEDERAL SUBSIDY TO MAKE UP THE INTEREST DIFFERENTIAL. HE DID NOT EXPECT DM 120 MILLION OF THESE CREDITS EVER TO BE REPAYED. COMMENT: AID MINISTRY OFFICIAL CLARIFIED THE CHANCELLOR'S STATEMENT ON THE AMOUNT OF GERMAN FOREIGN ASSISTANCE TO EGYPT AS FOLLOWS: DM 750 MILLION IN PROJECT AND PROGRAM AID (CAPITAL ASSISTANCE) WAS PROVIDED IN THE 1960'S PRIOR TO THE BREAK IN DIPLOMATIC RELATIONS; SINCE THE RESUMPTION OF RELATIONS IN 1972, THE FRG HAS PROVIDED CAPITAL ASSISTANCE LOANS IN A VALUE OF DM 850 MILLION. IN ADDITION, THE FRG AGREES

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TO CONTRIBUTE \$50 MILLION (DM 130 MILLION) AS ITS SHARE OF THE \$1 BILLION FINANCIAL PACKAGE ORGANIZED BY THE U.S. TECHNICAL ASSISTANCE SINCE 1972 HAS EXCEEDED DM 33 MILLION IN VALUE. END COMMENT. IN ADDITION, A SPECIAL EXPORT CREDIT GUARANTY CEILING OF DM 250 MILLION WAS IN EXISTENCE, AND CONSIDERATION WAS BEING GIVEN TO NEW GUARANTIES OF DM 300 MILLION. THE CHANCELLOR WAS, HOWEVER, DUBIOUS AS TO WHETHER THE 300 MILLION WOULD INDEED BE POSSIBLE.

4. THE CHANCELLOR EXPRESSED INTEREST IN THE UNDER SECRETARY'S DESCRIPTION OF THE EGYPTIAN ECONOMIC SITUATION. HE WAS SURPRISED TO LEARN OF AND WAS CRITICAL OF THE DUAL EXCHANGE RATE SYSTEM IN PRACTICE. HE SAID HE WOULD APPRECIATE RECEIVING IN WRITING OUR OWN RECOMMENDATIONS FOR IMPROVEMENT IN EGYPTIAN ECONOMIC POLICY, SINCE THE GERMANS WOULD LIKE TO FOLLOW THE SAME LINE WE DO IN THEIR TALK WITH SADAT DURING HIS FORTHCOMING VISIT TO THE FRG.

5. ON ZAMBIA AND ZAIRE, THE CHANCELLOR SAID HE WAS MOST SYMPATHETIC. HE COMPLAINED AGAIN OVER THE UNHELPFUL ATTITUDE OF THE BUNDES BANK WHICH HAD REFUSED TO GIVE CREDITS TO THE CENTRAL BANKS OF THOSE TWO COUNTRIES. HE REPEATED THAT AFTER ALL

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THE BUNDES BANK DOES NOT NEED ALL ITS RESERVES. HOWEVER, IN VIEW OF THE CONSTITUTIONAL INDEPENDENCE OF THE GERMAN CENTRAL BANK, IT WAS A HARD PROBLEM TO DEAL WITH. HE HAD, FOR EXAMPLE, TOLD THE BUNDES BANK THAT HE COULD NOT SEE WHY IT WAS NOT POSSIBLE TO GIVE A CREDIT TO ZAIRE AND ZAMBIA AGAINST COPPER, WHEN THEY WERE GIVING CREDITS TO ITALY AND PORTUGAL AGAINST GOLD. DESPITE ALL THESE DIFFICULTIES THE CHANCELLOR SAID HE WOULD CONTINUE TO TAKE A SYMPATHETIC STAND VIS-A-VIS THE NEEDS OF THOSE TWO COUNTRIES.

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